LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6303 | **DATE PREPARED:** Mar 26, 2001
BILL NUMBER: HB 1193 | **BILL AMENDED:** Mar 22, 2001

SUBJECT: State Employee Defined Contribution Plan.

FISCAL ANALYST: Jim Landers
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FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State

<u>Summary of Legislation:</u> (Amended) The bill requires the State Personnel Department to adopt rules concerning: (1) the type and amount of leave that may be converted to a monetary contribution; (2) the conversion formula for valuing any leave that is converted; (3) the manner of employee selection of leave conversion; and (4) the vesting schedule for any leave that is converted. The rules adopted by the State Personnel Department must provide for a conversion rate under which the amount contributed on behalf of a participating employee for a day of leave that is converted is equal to at least 60% of the employee's daily pay on the date the leave is converted. The bill provides that the provisions may be implemented only if the Deferred Compensation Committee has received from the Internal Revenue Service any rulings or determination letters that the Committee considers necessary or appropriate. The bill also provides that the existing provisions establishing a Section 125 Cafeteria Plan program for unused leave time for state employees do not apply after the Defined Contribution Plan is implemented and the Deferred Compensation Committee has received from the Internal Revenue Service any rulings or determination letters that the Committee considers necessary or appropriate for the Defined Contribution Plan. It also provides that the Deferred Compensation Committee may use funds available under the plan to hire or contract with qualified attorneys, financial advisors, or other professional or administrative persons. The bill provides that the Deferred Compensation Committee may annually elect a chairperson and secretary. The bill also provides that the two members of the Deferred Compensation Committee who must be participants in the state employees' Deferred Compensation Plan may not serve for more than two consecutive three year terms. The bill authorizes a political subdivision that uses the state employees' Deferred Compensation Plan for its employees to participate in the state Defined Contribution Plan established under Section 401(a) of the Internal Revenue Code for the purpose of matching all or a specified portion of the political subdivision's employees' contributions to the Deferred Compensation Plan.

<u>Effective Date:</u> July 1, 2001.

<u>Explanation of State Expenditures:</u> (Revised) *Defined Contribution Plan:* The bill would establish a

Defined Contribution Plan under which state employees could annually convert excess accrued sick and vacation leave time into a monetary contribution to the Plan. Under the bill, the State Department of Personnel is required to provide for: (1) The type and amount of leave to be converted to monetary contributions; (2) the conversion formula; (3) the manner of employee selection of leave conversion; and (4) the vesting schedule for leave conversions. The bill also requires that the conversion rate be at least 60% of the employee's daily pay as of the date the leave is converted.

While the total impact of the bill is dependent upon the plan developed by the State Department of Personnel, the table below presents cost estimates for conversion of a vacation day and conversion of a sick day. These estimates are based on the current value of vacation and sick leave in excess of 30 days that has been accrued by state employees. The estimates assume that conversion of vacation days and sick days is limited to days an employee has accrued in excess of 30 days. For vacation days, this is done because state retirees are currently provided cash payment for up to 30 vacation days and the bill does not change this policy. The 30-day threshold is assumed for sick days for consistency. The estimates also assume a conversion rate of 60% and a 60% participation rate by eligible employees (the approximate participation rate for the state's Deferred Compensation Plan).

Conversion	**Net Annual Cost With a 60% Conversion Rate and 60% Employee Participation**
1 Vacation Day	$270,000
1 Sick Day	$230,000

The cost estimates are net amounts computed by subtracting from the converted value of a day the cost of fringe benefits attributable to that day. These fringe benefits would otherwise be paid if the employee were to utilize the day for leave purposes. A further offset of the cost of the bill potentially could be reductions in overtime costs in agencies where other employees must work overtime shifts to replace employees on leave. The Defined Contribution Plan may serve to reduce use of leave days, in particular unnecessary use of sick leave days, if employees prefer to convert such leave to the Plan instead of utilizing it. The actual impact of the bill is dependent upon the plan developed by the State Department of Personnel. Funding of this plan would come from the Personnel Services/Fringe Benefit Contingency fund for employees paid from the state General Fund, and other dedicated funds from which employees of some agencies are paid.

Section 125 Cafeteria Plan Program: The bill would eliminate the current Section 125 Cafeteria Plan Program provided the Defined Contribution Plan is implemented. Elimination of the Section 125 Cafeteria Plan Program would result in an annual saving of approximately $700,000.

This estimate is based on state employees who retired with 10 or more years of creditable service in CY 2000. According to current statute establishing the Section 125 Cafeteria Plan Program, payment on behalf of an employee for unused leave time upon retirement is based on the hourly rate the employee was paid on the employee's retirement date times a fraction of the number of accrued, but unused, vacation, sick, and personal days. This fraction is determined by the following: (1) For an employee with at least 10 years but less than 15 years of creditable service, the fraction is 20%; (2) for an employee with at least 15 years but less than 20 years of creditable service, the fraction is 35%; and (3) for an employee with at least 20 years of creditable service, the fraction is 50%. The maximum amount that an employee is currently entitled to is $5,000.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Dan Novreske, State Budget Agency, 233-5707.